

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Iosco County Medical Care Facility</u>	County <u>Iosco</u>
Audit Date December 31, 2004	Opinion Date March 2, 2005	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 750 Trade Centre Way, Suite 300	City Portage	State MI	ZIP 49002
Accountant Signature 			

Iosco County Medical Care Facility

**Financial Report
with Additional Information
December 31, 2004**

Iosco County Medical Care Facility

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Independent Auditor's Report

To the Family Independence Agency Board
Iosco County Medical Care Facility

We have audited the accompanying balance sheet of Iosco County Medical Care Facility (a component unit of Iosco County, Michigan) as of December 31, 2004 and 2003 and the related statements of revenue and expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iosco County Medical Care Facility at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present the management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be part of, the basic financial statements.

Plante & Moran, PLLC

March 2, 2005



A worldwide association of independent accounting firms

Iosco County Medical Care Facility

Balance Sheet

	December 31, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,499,654	\$ 1,999,134
Residents accounts receivable (Note 3)	356,519	443,734
Taxes receivable (Note 1)	421,829	528,769
Other current assets	64,707	51,451
Total current assets	3,342,709	3,023,088
Assets Limited as to Use (Note 2)	1,690,531	1,457,614
Property and Equipment - Net (Note 4)	4,460,280	4,592,090
Total assets	<u><u>\$ 9,493,520</u></u>	<u><u>\$ 9,072,792</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 89,476	\$ 42,783
Funds held for residents	6,738	8,394
Accrued liabilities and other:		
Accrued compensation and related liabilities	260,022	222,536
Deferred revenue - Proportionate Share Program (Note 1)	21,789	31,860
Deferred tax revenue (Note 1)	421,829	528,769
Other accrued liabilities	298,030	84,780
Total current liabilities	1,097,884	919,122
Net Assets		
Invested in capital assets - Net of related debt	4,460,280	4,592,090
Unrestricted	3,935,356	3,561,580
Total net assets	8,395,636	8,153,670
Total liabilities and net assets	<u><u>\$ 9,493,520</u></u>	<u><u>\$ 9,072,792</u></u>

Iosco County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2004	December 31, 2003
Operating Revenue		
Net service revenue	\$ 5,256,838	\$ 4,785,938
Other operating revenue	23,571	42,051
Proportionate Share reimbursement	115,064	80,902
Total operating revenue	5,395,473	4,908,891
Operating Expenses		
Salaries	2,870,624	2,618,263
Other expenses	2,709,841	2,338,640
Total operating expenses	5,580,465	4,956,903
Operating Loss	(184,992)	(48,012)
Other Income		
Interest income	30,912	22,017
Tax revenue	393,219	375,781
Other income	2,827	-
Total other loss	426,958	397,798
Increase in Net Assets	241,966	349,786
Net Assets - Beginning of year	8,153,670	7,803,884
Net Assets - End of year	\$ 8,395,636	\$ 8,153,670

Iosco County Medical Care Facility

Statement of Cash Flows

	Year Ended	
	December 31, 2004	December 31, 2003
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 5,556,149	\$ 4,886,962
Cash paid to employees and suppliers	(5,271,982)	(4,788,701)
Cash received from Proportionate Share Program	104,993	63,600
Other operating receipts	23,571	41,871
Net cash provided by operating activities	412,731	203,732
Cash Flows from Noncapital Financing Activities		
Resident trust deposits (withdrawals)	(1,656)	4,431
Property taxes	393,219	375,781
Other	2,827	-
Net cash provided by noncapital financing activities	394,390	380,212
Cash Flows from Investing Activities - Interest received	30,912	22,017
Cash Flows from Capital and Related Financing Activities -		
Purchase of property and equipment	(104,596)	(207,776)
Net Increase in Cash and Cash Equivalents	733,437	398,185
Cash and Cash Equivalents - Beginning of year	3,456,748	3,058,563
Cash and Cash Equivalents - End of year	<u>\$ 4,190,185</u>	<u>\$ 3,456,748</u>
Balance Sheet Classification of Cash		
Current assets	\$ 2,499,654	\$ 1,999,134
Assets limited as to use	1,690,531	1,457,614
Total cash	<u>\$ 4,190,185</u>	<u>\$ 3,456,748</u>

Iosco County Medical Care Facility

Statement of Cash Flows (Continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

	Year Ended	
	December 31, 2004	December 31, 2003
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (184,992)	\$ (48,012)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	236,406	222,767
Accounts receivable	87,215	94,831
Inventories and other assets	(13,256)	6,013
Accounts payable	46,693	17,238
Accrued compensation	37,486	(71,803)
Deferred revenue	(10,071)	(17,302)
Other accrued liabilities	213,250	-
Net cash provided by operating activities	<u>\$ 412,731</u>	<u>\$ 203,732</u>

There were no significant noncash investing, capital, and financing activities for 2004 and 2003.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies

Iosco County Medical Care Facility (the "Facility") is a component unit of the County of Iosco. The financial statements of the Facility are included in the County's basic financial statements.

The Facility is an 83-bed, long-term, medical care unit owned and operated by Iosco County. It is governed by Iosco County Family Independence Agency Board. The Board consists of three members, two of whom are appointed by the Iosco County Board of Commissioners, and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the budget for the Facility.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the accounts of the Facility are accounted for as an Enterprise Fund.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Assets Limited as to Use - Assets limited as to use include primarily assets set aside by the Board of Trustees for future capital improvement, over which the Board retains control, and may, at its discretion, subsequently use for other purposes.

Property and Equipment - Property and equipment amounts are recorded at historical cost. Depreciation is computed on the straight-line method. Costs of repairs and maintenance are charged to expense as incurred.

Sick and Vacation Pay - Sick and vacation pay are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Net Assets - Net assets are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Patient Trust Liability - The State Department of Treasury requires facilities to administer and account for monies of patients. The patient trust liability on the balance sheet represents patient trust fund deposits.

Maintenance of Effort - Maintenance of Effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid patient day that was approved by the State during that month. M.O.E. totaling \$56,266 and \$54,764 for 2004 and 2003, respectively, was paid by the Facility and is included in operating expenses.

Taxes Receivable/Deferred Tax Revenue - Taxes are levied on December 1 and are payable on February 15. The cities and townships within the County bill and collect the property taxes for the County. County property tax revenue is recognized when levied. Deferred property taxes are amounts levied at December 1 of the current year, but applied to future operations.

In 2002, the voters of Iosco County approved a levy annually up to \$.46 per \$1,000 of assessed valuation for the purpose of general operations of the Facility.

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	Percentage	
	2004	2003
Percent of revenue:		
Medicaid	77	81
Medicare	9	8

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Medicaid reimburses the Facility for inresident routine service costs on a per diem basis, prospectively determined. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Proportionate Share Reimbursement Program - During the years ended December 31, 2004 and 2003, the Facility participated in this program sponsored by the State of Michigan.

In 2004, two transactions were completed. The first transaction in June was recorded in revenue in relation to the state fiscal year ended September 30, 2004. The second transaction in October was for the state fiscal year ending September 30, 2005 and therefore was recognized one quarter in revenue and three quarters in deferred revenue. The first transaction included an amount equal to approximately 3 percent of the annual Medicaid reimbursement in lieu of the normal administrative adjustment or inflation factor.

In 2003, two transactions were completed. The first transaction in September was recorded in revenue in relation to the state fiscal year ended September 30, 2003. The second transaction in October was for the state fiscal year ended September 30, 2004 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 2 - Deposits

The Facility's deposits are composed of the following:

	2004		2003	
	Cash	Cash Limited as to Use	Cash	Cash Limited as to Use
Deposits:				
County	\$2,482,558	\$1,690,531	\$1,980,561	\$1,457,614
Bank	17,096	-	18,573	-
Total	<u>\$2,499,654</u>	<u>\$1,690,531</u>	<u>\$1,999,134</u>	<u>\$1,457,614</u>

Cash - County Treasurer - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits.

Cash - Bank - The federal depository insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the Facility's deposits is not determinable

Cash Limited as to Use - Cash limited as to use consists of funds designated by the Iosco County Family Independence Agency Board for future capital purchases.

Note 3 - Accounts Receivable

The details of resident accounts receivable are as follows:

	2004	2003
Resident accounts receivable	\$ 475,816	\$ 568,598
Uncollectible accounts	<u>(119,297)</u>	<u>(124,864)</u>
Net resident accounts receivable	<u>\$ 356,519</u>	<u>\$ 443,734</u>

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 3 - Accounts Receivable (Continued)

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	Percentage	
	2004	2003
Medicare	15	16
Medicaid	50	68
Other payors	35	16
Total	100	100

Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2004 are summarized below:

	January 1, 2004	Additions	Transfers	Retirements	December 31, 2004	Depreciable Life - Years
Building	\$ 5,001,444	\$ 33,952	\$ -	\$ (19,223)	\$ 5,016,173	10-40
Equipment	1,442,849	42,144	-	-	1,484,993	5-20
Construction in process	-	28,500	-	-	28,500	
Total	6,444,293	104,596	-	(19,223)	6,529,666	
Less accumulated depreciation:						
Building	1,030,466	131,524	-	(19,223)	1,142,767	
Equipment	821,737	104,882	-	-	926,619	
Total	1,852,203	236,406	-	(19,223)	2,069,386	
Net carrying amount	\$ 4,592,090	\$ (131,810)	\$ -	\$ -	\$ 4,460,280	

	January 1, 2003	Additions	Transfers	Retirements	December 31, 2003	Depreciable Life - Years
Building	\$ 4,889,631	\$ 111,813	\$ -	\$ -	\$ 5,001,444	5-40
Equipment	853,606	95,963	493,280	-	1,442,849	5-20
Advance on construction	500,000	-	(500,000)	-	-	
Total	6,243,237	207,776	(6,720)	-	6,444,293	
Less accumulated depreciation:						
Building	946,883	90,303	-	(6,720)	1,030,466	
Equipment	689,273	132,464	-	-	821,737	
Total	1,636,156	222,767	-	(6,720)	1,852,203	
Net carrying amount	\$ 4,607,081	\$ (14,991)	\$ (6,720)	\$ 6,720	\$ 4,592,090	

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 5 - Defined Benefit Multiple Employer Pension Plan

As disclosed in Note 1, the Facility is a component unit of Iosco County. Iosco County, including the Facility, participates in the Michigan Municipal Employees' Retirement System. Michigan Municipal Employees' Retirement System is an agent multiple-employer defined benefit pension plan that covers all employees of the County. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. This information can be requested by writing to: Iosco County, P.O. Box 538, Tawas City, Michigan 48764.

The obligation to contribute to, and maintain, the system for these employees was established by negotiations with the County's competitive bargaining units, and requires a contribution from the employees of 3 percent of the first \$4,200 of annual compensation and 5 percent of portions over \$4,200. The Facility's contribution requirement is actuarially determined and is equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

Facility contributions to the plan for the years ended December 31, 2004, 2003, and 2002 were \$221,360, \$156,817, and \$109,258, respectively.

Note 6 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims, workers' compensation, and employee medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known outstanding or pending claims at December 31, 2004 and 2003.

Additional Information



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To the Family Independence Agency Board
Iosco County Medical Care Facility

We have audited the financial statements of Iosco County Medical Care Facility as of December 31, 2004 and 2003. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net service revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 2, 2005

Iosco County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended December 31	
	2004	2003
Skilled Nursing Services		
Daily net room revenue:		
Medicaid	\$ 4,059,858	\$ 3,776,027
Medicare	452,721	371,378
Private pay and other	746,689	511,408
Total daily net room revenue	5,259,268	4,658,813
Ancillary revenue:		
Pharmacy	188,563	182,646
Therapy services	186,717	214,895
Other ancillary services	16,854	16,131
Total ancillary revenue	392,134	413,672
Gross skilled nursing services revenue	5,651,402	5,072,485
Revenue deductions:		
Provision for contractual discounts	382,783	283,275
Bad debt expense	11,781	3,272
Total revenue deductions	394,564	286,547
Net Service Revenue	\$ 5,256,838	\$ 4,785,938

Iosco County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31			
	2004			2003
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,001,511	\$ 1,001,511	\$ 1,026,065
Administration	299,610	577,094	876,704	546,539
Plant operations	87,450	55,495	142,945	153,307
Utilities	-	163,238	163,238	159,547
Laundry	67,167	28,661	95,828	95,465
Housekeeping	196,798	34,535	231,333	212,090
Dietary	246,406	214,178	460,584	432,157
Diversional therapy	92,748	7,394	100,142	84,359
Other ancillary services	-	39,371	39,371	28,815
Therapy services	92,716	15,823	108,539	160,520
Pharmacy	-	90,373	90,373	60,480
Nursing	1,787,729	189,284	1,977,013	1,719,642
Other services	-	212	212	386
Depreciation	-	236,406	236,406	222,767
Maintenance of effort	-	56,266	56,266	54,764
Total operating expenses	\$ 2,870,624	\$ 2,709,841	\$ 5,580,465	\$ 4,956,903
2003 totals	\$ 2,618,263	\$ 2,338,640		